



Credit Union Economics Group (CUEG) Panel: Moving Forward in a Recovering Economy

Presented by

Dave Colby, Chief Economist

CUNA Mutual

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NCUA

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CUEG



Left to right are Eli Vazquez, American Airlines FCU; Tun Wai, NAFCU; Federal Reserve Bank of New York President William Dudley; Dave Colby, CUNA Mutual Group; and Steve Brewer, Michigan Schools and Government CU.



CUEG PANEL DISCUSSION

- Economic Forecast – Tun Wai
- Key Risks – Dave Colby
- Concentration Risks – John Kutchey



FEDERAL RESERVE FORECAST

“... Information received since the Federal Open Market Committee met in April suggests that the **economic recovery is proceeding** and that the labor market is improving gradually. Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit...Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, **although the pace of economic recovery is likely to be moderate for a time.**”

FOMC Statement

June 23, 2010



ALMOST ALL STATES IN RECESSION, 3/09



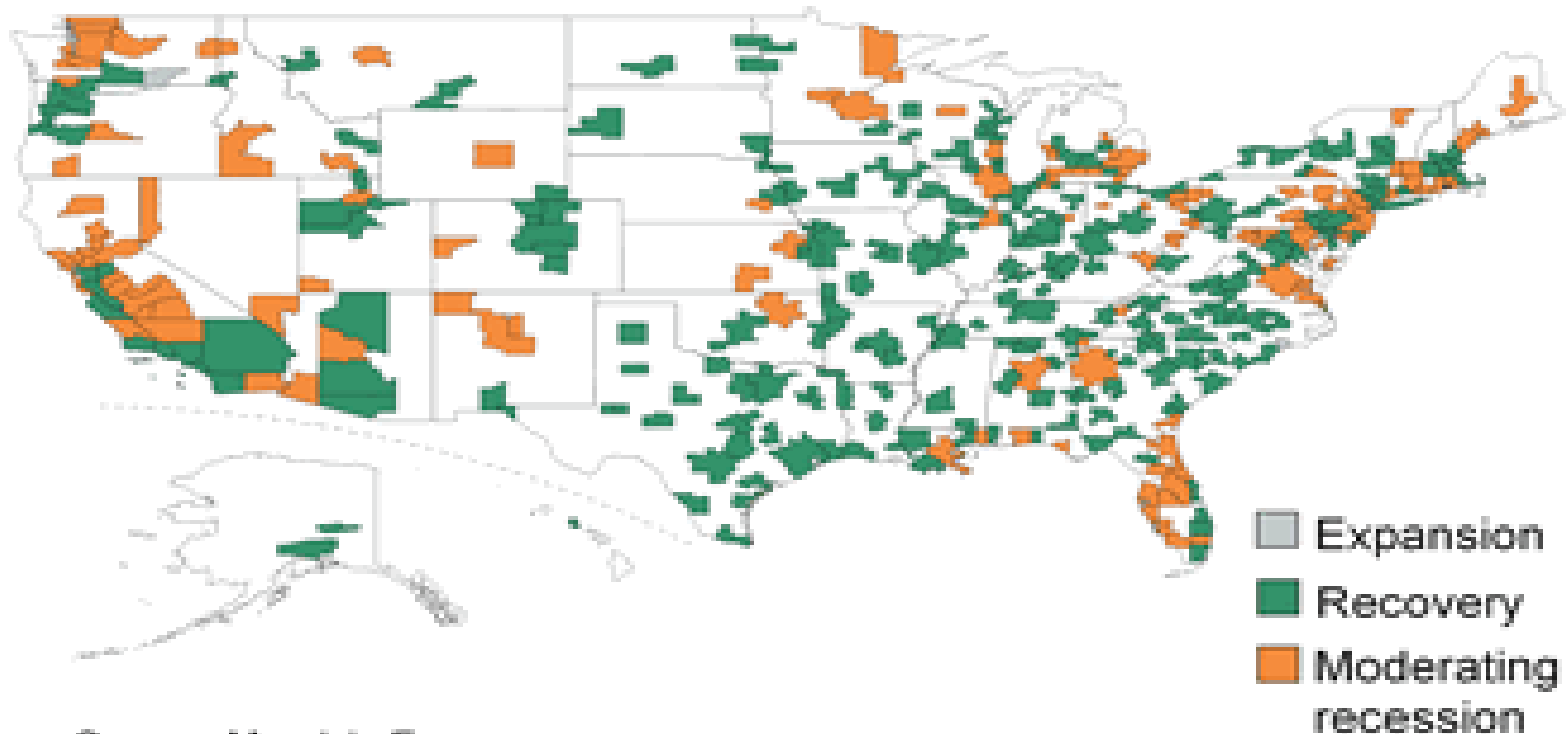
Source: Economy.com



AREAS RECOVERING

Recovery Reaching Increasingly More Areas

Status as of Apr 2010 data



Source: Moody's Economy.com



CHICAGO FRB NATIONAL ACTIVITY INDEX

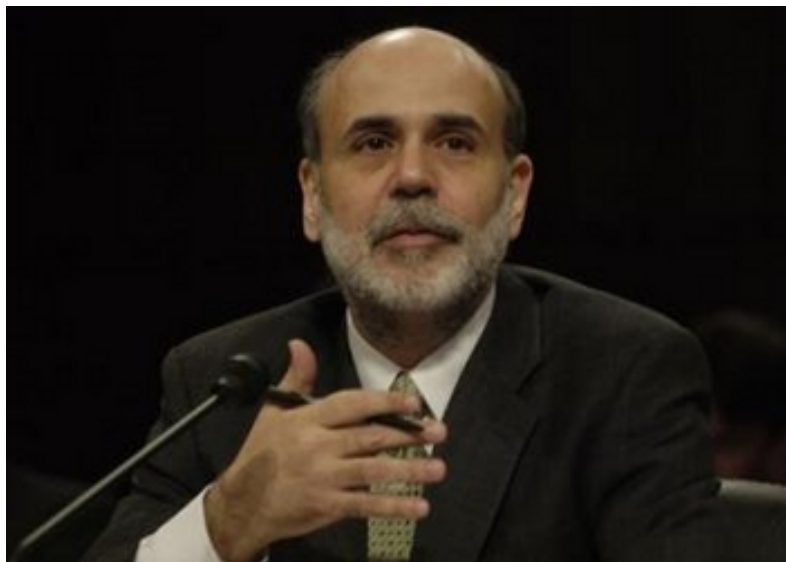
Chicago Fed National Activity Index, Three-Month Moving Average (CFNAI-MA3)



The index is a weighted average of 85 indicators of national economic activity. The indicators are drawn from four broad categories of data: 1) production and income; 2) employment, unemployment, and hours; 3) personal consumption and housing; and 4) sales, orders, and inventories.

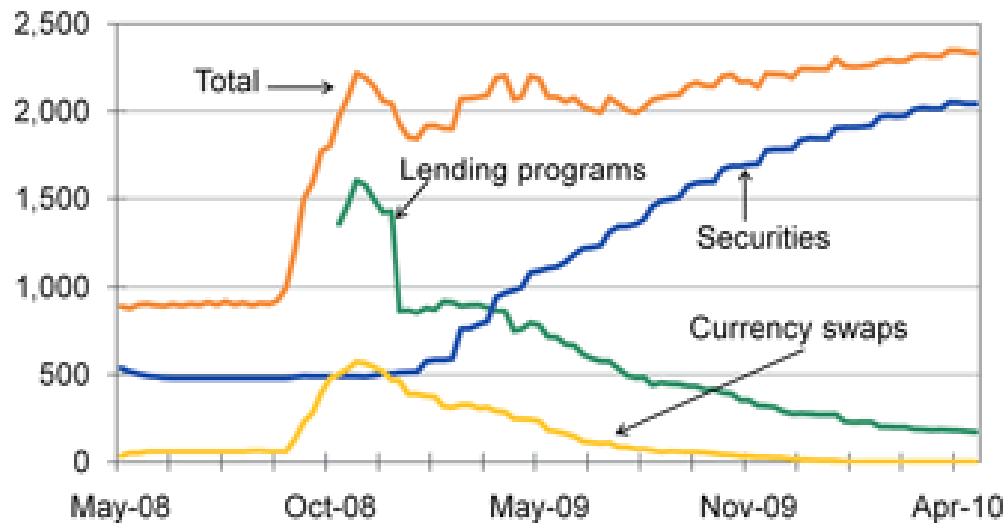


FRB BALANCE SHEET



Fed's Balance Sheet Could Expand Further

Assets on the Fed's balance sheet, \$ bil, NSA



Source: Fed

Source: Federal Reserve H-4.1 weekly releases.





FRB MACROECONOMIC FORECAST (6/23/10)

	2010 Forecast (Central Tendency)*	2011 Forecast (Central Tendency)	Long Run Forecast
Real GDP**	3.0% to 3.5%	3.5% to 4.2%	2.5% to 2.8%
PCE inflation	1.0% to 1.1%	1.1% to 1.6%	1.7% to 2.0%
Core PCE inflation	0.8% to 1.0%	0.9% to 1.3%	
Unemployment ***	9.2% to 9.5%	8.3% to 8.7%	5.0% to 5.3%

* The Central Tendency Excludes The Three Highest And Three
Lowest Projections For Each Variable In Each Year.

** Fourth Quarter to Fourth Quarter Change.

** Fourth Quarter-Average Levels.



CUEG JULY FORECAST

www.CUEG.org

	Actual Results	Annual Forecasts (Mean)	
	2009	2010	2011
Growth Rates:			
<i>Loan Growth</i>	0.5%	2.47%	4.74%
<i>Savings Growth</i>	9.7%	7.09%	6.37%
CPI-U:			
<i>CPI-U</i>	2.7%	1.87%	2.09%
Interest Rates:			
<i>Fed Funds Rate</i>	0.25%	0.25%	1.27%
GDP:			
<i>GDP</i>	-2.4%	2.41%	2.54%



KEY ECONOMIC AND CREDIT UNION RISKS

Dave Colby - Chief Economist





CURRENT PERCEPTIONS

Current Perceptions on Recovery

- Your members
- Your credit union
- Actions



RISKS TO ECONOMY

- Economic engine stalls
- Wave two employment shock
- Second credit crisis
- Interest rate spikes
- Unintended consequences
- External shocks



THE VIEW AHEAD

- Fragile recovery
- Consumers proceed with caution
- Businesses proceed with caution
- Banking proceeds with caution
- Good News -- Downside risks decline?



RISKS TO CREDIT UNIONS

- Massive re-regulation and regulatory mandates
- Cuts to non-interest income on the horizon
- Additional assessments
- Taxation
- Rate shocks and resets
- Large-scale failure triggers regulatory restructuring



WE WILL RECOVER

Credit unions have managed through 20 recessions over the past 101 years



CONCENTRATION RISK

John Kutchey

Deputy Director

Examination and Insurance



National Credit
Union Administration

CUEG



CONCENTRATION RISK

- Growing concentrations are a major factor in credit union failures.
- NCUA is emphasizing this area of review in relation to the total risk of each credit union.
- Issued NCUA Letter to Credit Unions 10-CU-03 on April 6, 2010.



10 YEAR COMPARISON - FICUs

	December 31, 2000	December 31, 2009	Annual % Chg
Number of FICUs	10,316	7,554	-3.2%
Total Assets	\$438.2 billion	<u>\$884.8 billion</u>	9.1%
Total Shares	\$379.2 billion	\$752.7 billion	10.5%
Total Loans	\$301.3 billion	\$572.4 billion	1.1%
Average Asset Size	\$42.5 million	<u>\$117.1 million</u>	12.7%
Net Worth Ratio (Aggregate) *Estimated prior to 2000	11.43%*	9.91%	-6.6%

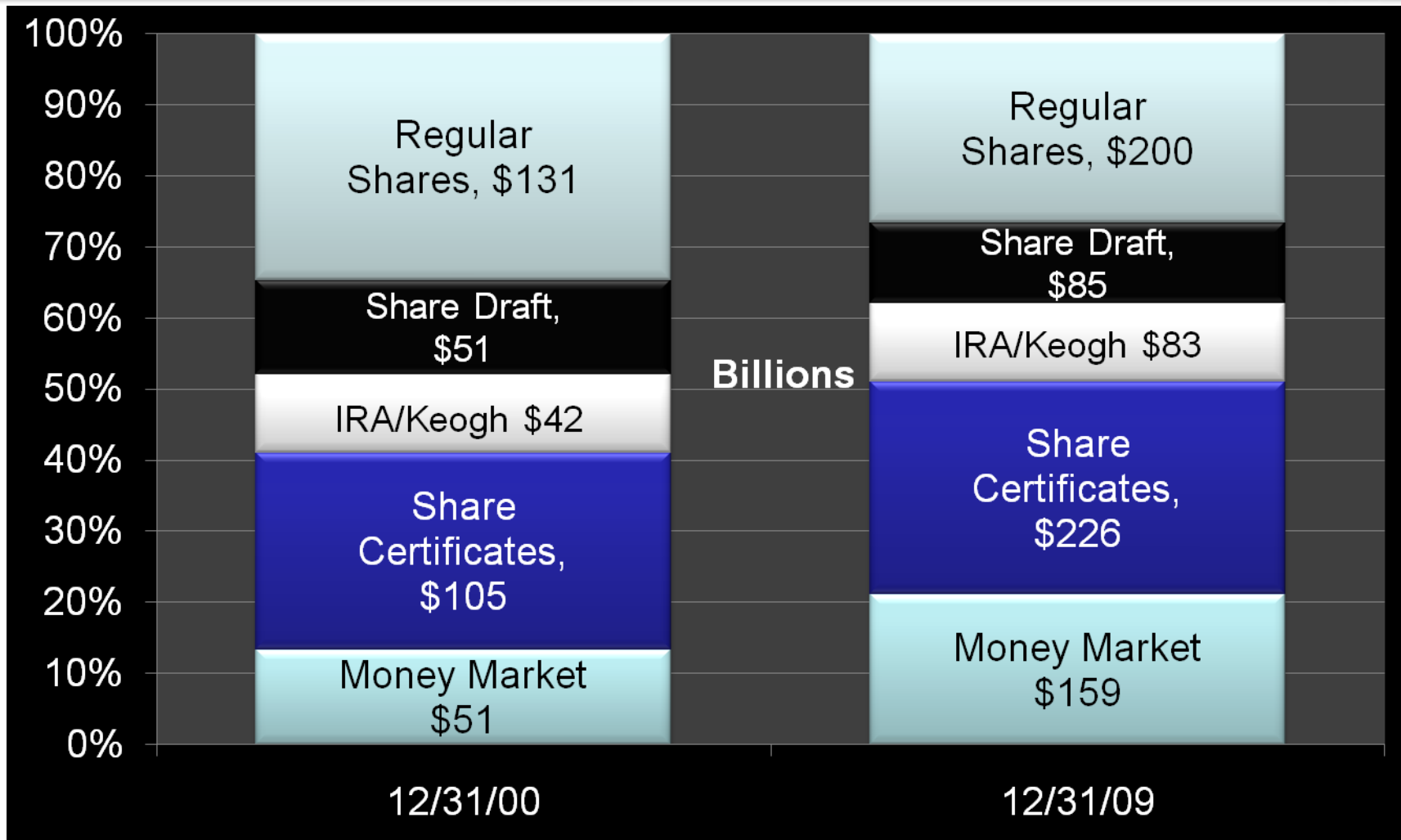


CHANGING BALANCE SHEET

	12/31/00	12/31/09
% Real Estate Loans to Total Loans	38.71%	54.07%
Net Long-Term Assets to Assets	22.67%	31.50%
% of Regular Shares to Total Shares	34.28%	25.29%

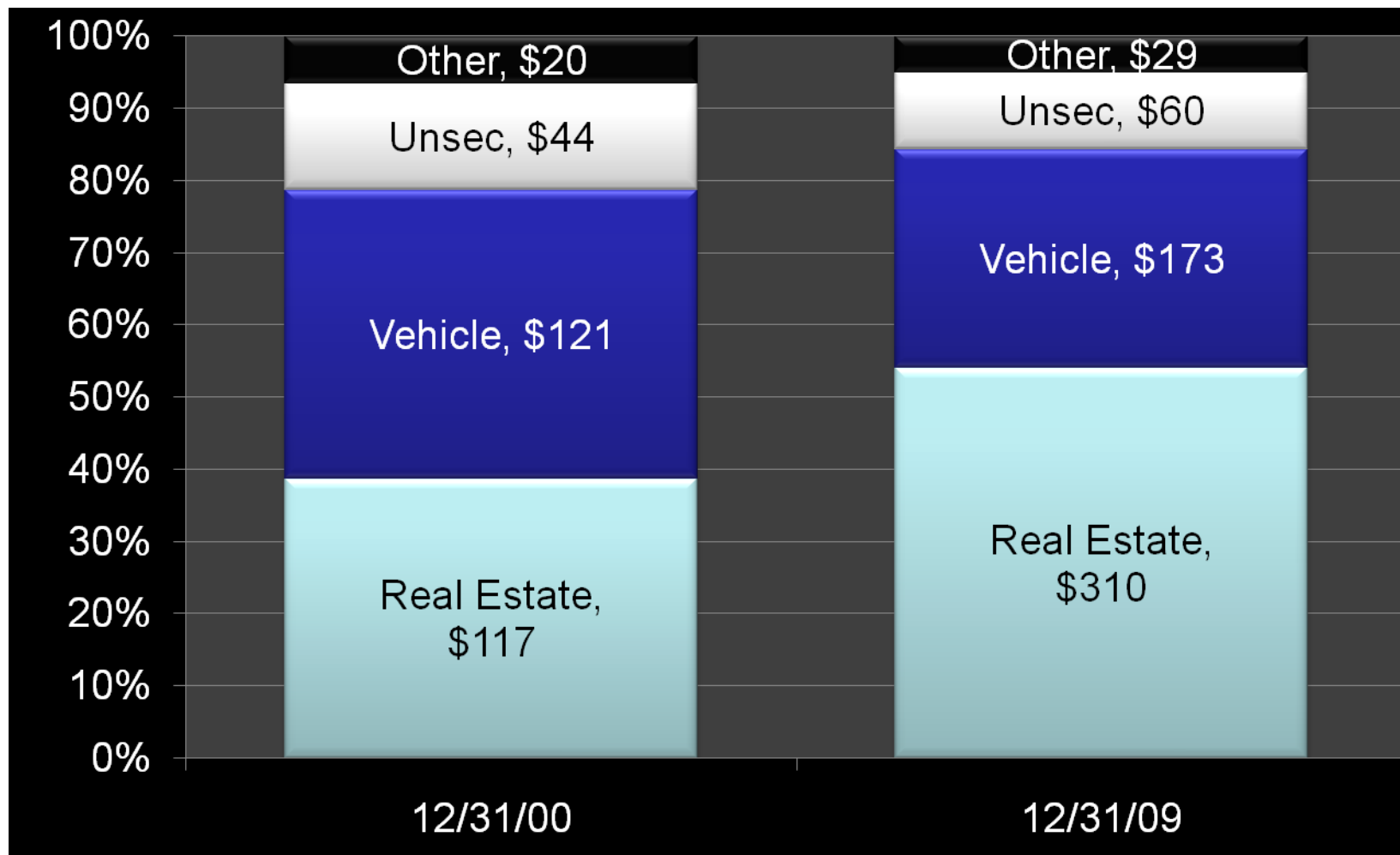


SHARE COMPOSITION





LOAN COMPOSITION





CREDIT RISK CONCENTRATIONS

Concentration Risk in Federally Insured Credit Unions

	Balance – 12/31/09
Real Estate Loans	\$309.5 billion
Member Business Loans (MBLs)	\$35 billion
Loan Participations	\$12.4 billion
Mortgage-Related Securities	\$58.7 billion



SUPERVISORY LETTER

- Points stressed in the Letter include:
 - Measuring risk by product/service and in totality to net worth.
 - On-going monitoring and measurement of risk as internal and external conditions change.
 - Measurement and monitoring consistent with size/complexity.
 - Board sets risk tolerance levels.



EXAMINER REVIEW

- Policies related to identifying, measuring, monitoring, controlling concentration risk?
- Acceptable risk limits for each product on an individual and aggregate basis?
- Understand and measure concentrations and interrelationships?
- Identify and consider “event risks”?



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